

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name Village of Otisville	County Genesee
Fiscal Year End 6-30-07	Opinion Date 11-27-07	Date Audit Report Submitted to State 12-6-07	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

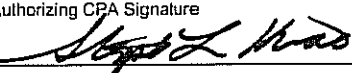
YES NO

Check each applicable box below. (See instructions for further detail.)

- ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
- ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
- ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
- ☒ ☐ The local unit has adopted a budget for all required funds.
- ☒ ☐ A public hearing on the budget was held in accordance with State statute.
- ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
- ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
- ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
- ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
- ☐ ☒ The local unit is free of repeated comments from previous years.
- ☒ ☐ The audit opinion is UNQUALIFIED.
- ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
- ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
- ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Lewis & Knopf, PC		Telephone Number 810-238-4617	
Street Address 5206 Gateway Centre - Ste 100		City Flint	State MI
Zip 48532			
Authorizing CPA Signature 	Printed Name Stephen L. Kidd, CPA	License Number 1101011609	

VILLAGE OF OTISVILLE

OTISVILLE, MICHIGAN

AUDIT REPORT FOR THE YEAR ENDED JUNE 30, 2007

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Lewis & Knopf, CPAs, P.C.

Serving You with Trust and Integrity

November 27, 2007

INDEPENDENT AUDITOR'S REPORT

To the Village Council
of the Village of Otisville

We have audited the accompanying financial statements of the governmental activities, the business-type activities each major fund, and the aggregate remaining fund information of Village of Otisville, as of and for the year ended June 30, 2007, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village of Otisville's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Village of Otisville, as of June 30, 2007, and the respective changes in financial position, and where applicable, cash flows, thereof and the respective budgetary comparison for the General Fund, DDA Fund, Major Street Fund and Village Improvement Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis information on pages II - IX, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Village of Otisville's basic financial statements. The additional information on pages 24 - 35 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The additional information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Lewis & Knopf P.C.
LEWIS & KNOPF, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

VILLAGE OF OTISVILLE - OTISVILLE, MICHIGAN
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

As management of the Village of Otisville, we offer readers of the Village of Otisville's financial statements this narrative overview and analysis of the financial activities of the Village of Otisville for the fiscal year ended June 30, 2007.

FINANCIAL HIGHLIGHTS

- A. The assets of the Village exceeded its liabilities at the close of the most recent fiscal year by \$2,381,956 (net assets).
- B. The Village's total net assets increased by \$7,393 for the fiscal year ended June 30, 2007.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the Village of Otisville's basic financial statements. The Village's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary and additional information in addition to the basic financial statements themselves.

Government-Wide Financial Statements:

The *government-wide financial statements* are designed to provide readers with a broad overview of the Village's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the Village's assets and liabilities, with the difference between the two reports as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Village is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. delinquent personal property taxes).

Both of the government-wide financial statements distinguish functions of the Village that are principally supported by taxes and intergovernmental revenues from other functions that are intended to recover all or a significant portion of their costs through user fees and charges.

The government-wide financial statements can be found on pages 1 and 2 of this report.

Fund Financial Statements:

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Village, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Village can be divided into two categories: governmental funds and proprietary funds.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government wide financial statements. However, unlike the government-wide financial statements, governmental fund statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

VILLAGE OF OTISVILLE - OTISVILLE, MICHIGAN
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

Fund Financial Statements: (Continued)

Governmental Funds (Continued)

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The Village maintains eight individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the general fund, public improvement fund and special assessment bonds all of which are considered to be major funds. Data from the other five governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

The Village adopts an annual appropriated budget for its general fund, public improvement and special assessments bond fund. Budgetary comparison statements have been provided for the operation & maintenance fund and capital fund in the required supplementary information.

The basic governmental fund financial statements can be found on pages 3 through 4 of this report.

Proprietary Funds

The Village maintains one type of proprietary fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Village uses enterprise funds to account for its sewer activity.

The proprietary fund financial statements can be found on pages 5 to 7 of this report.

Notes to the Financial Statements

The notes provide additional information that is essential to full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 14 through 23 of this report.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents other supplementary information. The other supplementary information can be found on pages 24 through 35 of this report.

VILLAGE OF OTISVILLE - OTISVILLE, MICHIGAN
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

SUMMARY OF NET ASSETS:

The following summarizes the net assets at the fiscal years ended June 30, 2007 and 2006:

	<u>2007</u>			<u>2006</u>
	<u>Governmental</u>	<u>Business-Type</u>		
	<u>Activities</u>	<u>Activities</u>	<u>Total</u>	<u>Total</u>
Current Assets	\$181,870	\$267,102	\$448,972	\$443,944
Noncurrent Assets	<u>115,731</u>	<u>2,155,480</u>	<u>2,271,211</u>	<u>2,302,970</u>
<u>TOTAL ASSETS</u>	<u>\$297,601</u>	<u>\$2,422,582</u>	<u>\$2,720,183</u>	<u>\$2,746,914</u>
Current Liabilities	\$19,924	\$25,546	\$45,470	42,312
Noncurrent Liabilities	<u>51,000</u>	<u>241,757</u>	<u>292,757</u>	<u>330,039</u>
Total Liabilities	<u>\$70,924</u>	<u>\$267,303</u>	<u>\$338,227</u>	<u>\$372,351</u>
Net Assets				
Invested in Capital Assets – Net of Debt	48,731	1,892,440	1,941,171	1,940,719
Unrestricted	<u>177,946</u>	<u>262,839</u>	<u>440,785</u>	<u>433,844</u>
Total Net Assets	<u>\$226,677</u>	<u>\$2,155,279</u>	<u>\$2,381,956</u>	<u>\$2,374,563</u>
<u>TOTAL LIABILITIES AND NET ASSETS</u>	<u>\$297,601</u>	<u>\$2,422,582</u>	<u>\$2,720,183</u>	<u>\$2,746,914</u>

VILLAGE OF OTISVILLE - OTISVILLE, MICHIGAN
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

RESULTS OF OPERATIONS:

For the fiscal years ended June 30, 2007 and 2006, the Village's results of operations were:

	2007			2006
	Governmental	Business Type		
	Activities	Activities	Total	Total
Revenues:				
Program Revenues:				
Charges for Services	\$82,636	\$223,816	\$306,452	\$318,632
Operating Grants	0	0	0	5,050
General Revenues:				
Property Taxes	255,811	0	255,811	241,396
State Sources	154,828	0	154,828	164,876
Investment Earnings	2,551	9,520	12,071	5,605
Other	14,426	971	15,397	1,529
Total Revenues	\$510,252	\$234,307	\$744,559	\$737,088
Functions/Program Expenses:				
DDA	63,052	0	63,052	4,435
Legislative	13,086	0	13,086	14,066
Executive	13,394	0	13,394	10,666
Election	87	0	87	865
General Administration	26,980	0	26,980	31,915
Law Enforcement	106,912	0	106,912	118,236
Department of Public Works	125,145	0	125,145	124,920
Highways, Streets and Bridges	90,900	0	90,900	69,271
Village Parks	2,925	0	2,925	1,153
Interest on Long-Term Obligations	4,260	0	4,260	4,627
Water	0	120,445	120,445	117,046
Sewer	0	169,980	169,980	167,225
Total Expenses	\$446,741	\$290,425	\$737,166	\$664,425
<u>INCREASE IN NET ASSETS</u>	\$63,511	(\$56,118)	\$7,393	\$72,663
<u>BEGINNING NET ASSETS</u>	163,166	2,211,397	2,374,563	2,301,900
<u>NET ASSETS - ENDING</u>	\$226,677	\$2,155,279	\$2,381,956	\$2,374,563

VILLAGE OF OTISVILLE - OTISVILLE, MICHIGAN
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Analysis of Financial Position:

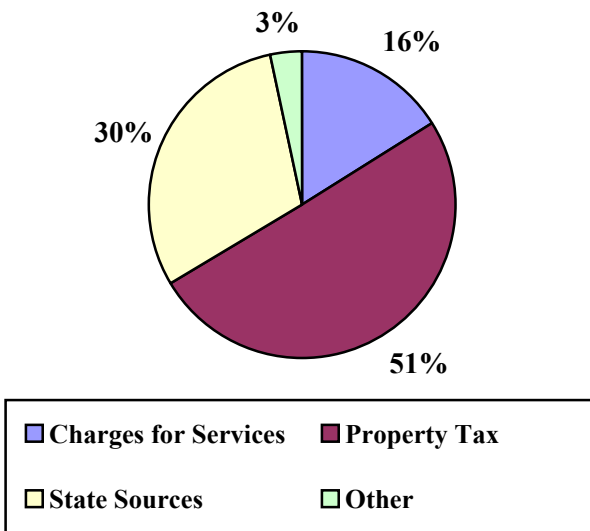
During the year ended June 30, 2007, the Village's Total Net Assets increased by \$7,393 to a total of \$2,381,956. The largest portion of the net assets are the Village's investment in capital assets. Net assets (invested in capital assets, net of related debt) at the end of the year was \$1,941,171. The Villages Unrestricted Net Assets was \$440,785 at the end of the year. The restricted Net Assets consist of the restricted debt retirement funds that may only be used to pay bonded debt and restricted capital projects funds that may only be used to fund capital projects. The unrestricted net assets may be used to pay for government services to residents.

Analysis of Results of Operations

The Village's overall revenues exceeded its expenditures by \$7,393 for the year. Revenues increased by \$7,471 from last year, primarily from increases in property taxes. Expenses increased by \$72,741 from last year due to purchases of equipment, increases in contract services and personnel costs.

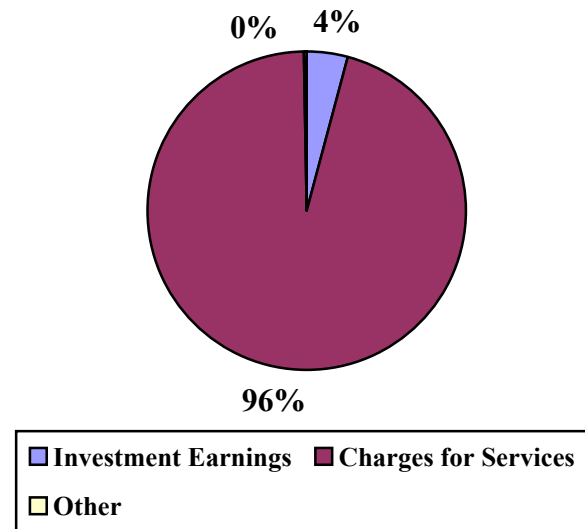
Revenues by Source – Governmental Activities

Total Revenues = \$510,252



Revenues by Source – Business-Type Activities

Total Revenues = \$234,307



FINANCIAL ANALYSIS OF GOVERNMENT'S FUNDS – GOVERNMENTAL FUNDS

Analysis of Financial Position

The focus of the Village's governmental funds is to provide information on near term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Village's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a governments net resources available for spending at the end of the fiscal year. An analysis of changes for the governmental funds is as follows:

General Fund

The Village's general fund is the chief operating fund of the Village. Unreserved fund balance for the general fund increased by \$5,430 during the year. Revenues for the year increased by \$27,610 primarily due to increases in transfers from other funds and equipment rental. Expenditures and other financing uses increased by \$11,656, primarily due to increases in personnel costs and equipment purchases.

VILLAGE OF OTISVILLE - OTISVILLE, MICHIGAN
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

FINANCIAL ANALYSIS OF GOVERNMENT'S FUNDS – GOVERNMENTAL FUNDS (Continued)

DDA Fund

Unreserved fund balance for the DDA fund decreased by \$13,895 during the year with the decrease coming primarily from a decrease in cash. Revenues for the year increased by \$10,293 primarily from an increase in tax collections. Expenditures and other financing uses increased by \$4,746, primarily from increases in contract services and personnel costs.

Major Street Fund

Unreserved fund balance for the Major Street fund decreased by \$5,558 during the year with the decrease coming primarily from a decrease in cash. Revenues for the year decreased by \$6,185 primarily from a decrease in state sources. Expenditures and other financing uses increased by \$596, primarily from increases in personnel costs.

Village Improvement Fund

Unreserved fund balance for the Village Improvement fund increased by \$33,807 during the year with the increase coming primarily from an increase in cash. Revenues for the year increased by \$5,810 primarily from an increase in property taxes. Expenditures and other financing uses decreased by \$90,058, primarily from decreases in transfers from other funds.

FINANCIAL ANALYSIS OF BUSINESS-TYPE ACTIVITIES

Enterprise Fund

Net assets for the enterprise fund decreased by \$56,118 during the year with the decrease coming primarily from a decrease in investment in capital assets, net of related debt. Revenues for the year decreased by \$112,967 primarily due to decreases in transfers from other funds and charges for services. Expenditures and other financing uses increased by \$6,154, primarily from increases in utilities and depreciation.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Asset

At the end of fiscal year 2007, the Village had \$4,652,615 invested in land, furniture and equipment, leasehold improvements, and sewer system. Of this amount, \$2,381,404 in depreciation has been taken over the years. We currently have net book value of \$2,271,211. Total acquisitions for the year were \$48,623 and depreciation expense was \$80,382. Significant additions were the purchase of a scraper, radio equipment, iron removal plant and lift station.

	Balance July 1, 2006	Additions	Deductions	Balance June 30, 2007
<u>GOVERNMENTAL ACTIVITIES</u>				
Land	\$2,000	\$0	\$0	\$2,000
Land Improvements	335,000	0	0	335,000
Buildings	52,000	0	0	52,000
Equipment	253,450	48,623	0	302,073
Totals at Historical Cost	\$642,450	\$48,623	\$0	\$691,073
Less: Accumulated Depreciation				
Land Improvements	(310,657)	(1,093)	0	(311,750)
Buildings	(23,920)	(940)	0	(24,860)
Equipment	(234,802)	(3,930)	0	(238,732)
Total Accumulated Depreciation	(\$569,379)	(\$5,963)	\$0	(\$575,342)
<u>NET GOVERNMENTAL ACTIVITIES</u>	<u>\$73,071</u>	<u>\$42,660</u>	<u>\$0</u>	<u>\$115,731</u>

VILLAGE OF OTISVILLE - OTISVILLE, MICHIGAN
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

CAPITAL ASSET AND DEBT ADMINISTRATION (Continued)

Capital Asset (Continued)

	Balance July 1, 2006	Additions	Deductions	Balance June 30, 2007
<u>BUSINESS - TYPE ACTIVITIES</u>				
Land	\$110,579	\$0	\$0	\$110,579
Sewer System	2,996,300	0	0	2,996,300
Water System	854,663	0	0	854,663
Less: Accumulated Depreciation	(1,731,643)	(74,419)	0	(1,806,062)
<u>NET BUSINESS - TYPE ACTIVITIES</u>	<u>\$2,229,899</u>	<u>(\$74,419)</u>	<u>\$0</u>	<u>\$2,155,480</u>

Debt, Principal Payments

The Village made principal payments on bonded, long term debt obligations that reduced the amount of the Village's long term liabilities as follows:

	Balance July 1, 2006	Additions	Deductions	Balance June 30, 2007
<u>Governmental Activities:</u>				
Bonds Payable	<u>\$82,000</u>	<u>\$0</u>	<u>\$15,000</u>	<u>\$67,000</u>
<u>Business-Type Activities:</u>				
Bonds Payable	<u>\$280,252</u>	<u>\$0</u>	<u>\$17,212</u>	<u>\$263,040</u>

GENERAL FUND BUDGET & ACTUAL REVENUES & EXPENDITURES

GENERAL FUND BUDGET VS. ACTUAL

Fiscal Year	Original Budget	Final Budget	Actual	Variance Original & Final Budget %	Variance Actual & Final Budget %
Revenues	\$331,301	\$331,301	\$289,813	0.00	12.52
Expenditures	331,301	342,133	306,938	3.27	10.29
<u>TOTAL</u>	<u>\$0</u>	<u>(\$10,832)</u>	<u>(\$17,125)</u>		

Original vs. Final Budgets

Revenues

There were no changes between original and final budgets.

Expenditures

The increase in the budget was in the following areas: department of public works.

VILLAGE OF OTISVILLE - OTISVILLE, MICHIGAN
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

Actual Results vs. Final Budgets

Revenues

The decrease in revenue is due to lower than expected tax collections.

Expenditures

The variance between actual and final budget is a decrease in expenditures in the following areas: administration, law enforcement, department of public works.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

- * The Village of Otisville's 2007/2008 adopted budget is as follows:

<u>REVENUE</u>	\$276,197
<u>EXPENDITURES</u>	<u>276,197</u>
<u>NET OVER BUDGET</u>	<u><u>\$0</u></u>

CONTACTING THE VILLAGE'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens and taxpayers with a general overview of the Village's finances. If you have questions about this report or need additional information, contact the Business Office, Village of Otisville.

VILLAGE OF OTISVILLE, MICHIGAN
STATEMENT OF NET ASSETS
AS OF JUNE 30, 2007

	Governmental Activities	Business-Type Activities	Total
<u>ASSETS</u>			
<u>CURRENT ASSETS</u>			
Cash and Cash Equivalents	\$173,609	\$249,564	\$423,173
Accounts Receivable	3,378	17,538	20,916
Due from Other Funds	1,264	0	1,264
Prepaid Expenses	3,619	0	3,619
Total Current Assets	<u>\$181,870</u>	<u>\$267,102</u>	<u>\$448,972</u>
<u>NON-CURRENT ASSETS</u>			
Depreciable Assets	689,073	3,875,963	4,565,036
Non-Depreciable Assets	2,000	85,579	87,579
Less: Accumulated Depreciation	(575,342)	(1,806,062)	(2,381,404)
Total Noncurrent Assets	<u>\$115,731</u>	<u>\$2,155,480</u>	<u>\$2,271,211</u>
<u>TOTAL ASSETS</u>	<u>\$297,601</u>	<u>\$2,422,582</u>	<u>\$2,720,183</u>
<u>LIABILITIES</u>			
<u>CURRENT LIABILITIES</u>			
Accounts Payable	\$3,310	\$2,999	\$6,309
Due to Other Funds	0	1,264	1,264
Accrued Expenses	614	0	614
Current Portion of Long-Term Obligations	16,000	21,283	37,283
Total Current Liabilities	<u>\$19,924</u>	<u>\$25,546</u>	<u>\$45,470</u>
<u>NON-CURRENT LIABILITIES</u>			
Non-Current Portion of Long-Term Obligations	<u>51,000</u>	<u>241,757</u>	<u>292,757</u>
<u>TOTAL LIABILITIES</u>	<u>\$70,924</u>	<u>\$267,303</u>	<u>\$338,227</u>
<u>NET ASSETS</u>			
<u>NET ASSETS</u>			
Invested in Capital Assets, Net of Related Debt	48,731	1,892,440	1,941,171
Unrestricted	177,946	262,839	440,785
Total Net Assets	<u>\$226,677</u>	<u>\$2,155,279</u>	<u>\$2,381,956</u>
<u>TOTAL LIABILITIES AND NET ASSETS</u>	<u>\$297,601</u>	<u>\$2,422,582</u>	<u>\$2,720,183</u>

See accompanying notes to the basic financial statements.

VILLAGE OF OTISVILLE, MICHIGAN
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2007

FUNCTIONS/PROGRAMS	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges For Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities:						
DDA	\$63,052	\$0	\$0	(\$63,052)	\$0	(\$63,052)
Legislative	13,086	0	0	(13,086)	0	(13,086)
Executive	13,394	0	0	(13,394)	0	(13,394)
Election	87	0	0	(87)	0	(87)
General Administration	26,980	5,186	0	(21,794)	0	(21,794)
Law Enforcement	106,912	0	0	(106,912)	0	(106,912)
Department of Public Works	125,145	77,300	0	(47,845)	0	(47,845)
Highways, Streets and Sidewalks	90,900	0	0	(90,900)	0	(90,900)
Village Parks	2,925	150	0	(2,775)	0	(2,775)
Interest on Long-Term Obligations	4,260	0	0	(4,260)	0	(4,260)
Total Governmental Activities	\$446,741	\$82,636	\$0	(\$364,105)	\$0	(\$364,105)
Business-Type Activities:						
Water	120,445	112,408	0	0	(8,037)	(8,037)
Sewer	169,980	111,408	0	0	(58,572)	(58,572)
Total Business-Type Activities	\$290,425	\$223,816	\$0	\$0	(\$66,609)	(\$66,609)
<u>TOTALS</u>	<u>\$737,166</u>	<u>\$306,452</u>	<u>\$0</u>	<u>(\$364,105)</u>	<u>(\$66,609)</u>	<u>(\$430,714)</u>
General Revenues:						
Taxes:						
Property Taxes, Levied for General Purposes				255,811	0	255,811
State Sources				154,828	0	154,828
Investment Earnings				2,551	9,520	12,071
Miscellaneous				15,397	0	15,397
Transfers from (to) Other Funds				(971)	971	0
Total General Revenues and Transfers				\$427,616	\$10,491	\$438,107
Change in Net Assets				\$63,511	(\$56,118)	\$7,393
Net Assets - Beginning				163,166	2,211,397	2,374,563
<u>Net Assets - Ending</u>				<u>\$226,677</u>	<u>\$2,155,279</u>	<u>\$2,381,956</u>

See accompanying notes to the basic financial statements.

VILLAGE OF OTISVILLE, MICHIGAN
BALANCE SHEET
GOVERNMENTAL FUNDS
AS OF JUNE 30, 2007

	General Fund	DDA Fund	Major Street Fund	Village Improvement Fund	Other Governmental Funds	Total Governmental Funds
<u>ASSETS</u>						
Cash and Cash Equivalents	\$26,880	\$84,006	\$15,723	\$37,981	\$9,019	\$173,609
Accounts Receivable	519	0	0	0	2,859	3,378
Due from Other Funds	1,264	0	0	4,887	1,740	7,891
Prepaid Expenditures	3,619	0	0	0	0	3,619
<u>TOTAL ASSETS</u>	<u>\$32,282</u>	<u>\$84,006</u>	<u>\$15,723</u>	<u>\$42,868</u>	<u>\$13,618</u>	<u>\$188,497</u>
<u>LIABILITIES</u>						
Accounts Payable	\$3,310	\$0	\$0	\$0	\$0	\$3,310
Due to Other Funds	4,887	0	1,740	0	0	6,627
Total Liabilities	\$8,197	\$0	\$1,740	\$0	\$0	\$9,937
<u>FUND BALANCES</u>						
Designated	21,693	0	13,160	0	4,737	39,590
Unreserved	2,392	84,006	823	42,868	8,881	138,970
Total Fund Balances	<u>\$24,085</u>	<u>\$84,006</u>	<u>\$13,983</u>	<u>\$42,868</u>	<u>\$13,618</u>	<u>\$178,560</u>
<u>TOTAL LIABILITIES AND FUND BALANCES</u>	<u>\$32,282</u>	<u>\$84,006</u>	<u>\$15,723</u>	<u>\$42,868</u>	<u>\$13,618</u>	<u>\$188,497</u>

See accompanying notes to the basic financial statements.

VILLAGE OF OTISVILLE, MICHIGAN
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
AS OF JUNE 30, 2007

Total Governmental Fund Balances:	\$178,560
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of the assets is \$691,073 and the accumulated depreciation is \$575,342	115,731
Accrued Interest on Long-Term Debt	(614)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year end consist of:	
Bonds Payable	<u>(67,000)</u>
<u>TOTAL NET ASSETS -</u> <u>GOVERNMENTAL ACTIVITIES</u>	<u>\$226,677</u>

VILLAGE OF OTISVILLE, MICHIGAN
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2007

	General Fund	DDA Fund	Major Street Fund	Village Improvement Fund	Other Governmental Funds
<u>REVENUES</u>					
Taxes	\$131,935	\$80,310	\$0	\$43,566	\$0
State Sources	94,556	0	43,682	0	16,590
Other Sources	63,322	1,015	133	997	35,117
Total Revenues	<u>\$289,813</u>	<u>\$81,325</u>	<u>\$43,815</u>	<u>\$44,563</u>	<u>\$51,707</u>
<u>EXPENDITURES</u>					
Current:					
DDA	0	63,052	0	0	0
Legislative	13,086	0	0	0	0
Executive	13,394	0	0	0	0
Election	87	0	0	0	0
General Administration	26,980	0	0	0	0
Law Enforcement	124,400	0	0	0	0
Department of Public Works	109,930	0	0	0	41,980
Highways, Streets and Sidewalks	17,229	0	49,373	0	23,798
Village Parks	1,832	0	0	0	0
Debt Retirement	0	0	0	0	19,398
Total Expenditures	<u>\$306,938</u>	<u>\$63,052</u>	<u>\$49,373</u>	<u>\$0</u>	<u>\$85,176</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(\$17,125)	\$18,273	(\$5,558)	\$44,563	(\$33,469)
<u>OTHER FINANCING SOURCES (USES)</u>					
Transfers to (from) Other Funds	22,555	(32,168)	0	(10,756)	19,398
Net Change in Fund Balance	<u>\$5,430</u>	<u>(\$13,895)</u>	<u>(\$5,558)</u>	<u>\$33,807</u>	<u>(\$14,071)</u>
<u>FUND BALANCE - BEGINNING</u>	<u>18,655</u>	<u>97,901</u>	<u>19,541</u>	<u>9,061</u>	<u>27,689</u>
<u>FUND BALANCE - ENDING</u>	<u>\$24,085</u>	<u>\$84,006</u>	<u>\$13,983</u>	<u>\$42,868</u>	<u>\$13,618</u>

See accompanying notes to the basic financial statements.

VILLAGE OF OTISVILLE, MICHIGAN
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2007

Total Governmental Funds	Total net change in fund balances - governmental funds	\$5,713
\$255,811	Amounts reported for governmental activities in the statement of activities are different because:	
154,828	Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period.	42,660
100,584		
\$511,223		
63,052	Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount of repayments reported as expenditures in the governmental funds.	15,000
13,086		
13,394		
87		
26,980		
124,400	Change in accrued interest on long-term liabilities	138
151,910		
90,400	<u>CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES</u>	<u>\$63,511</u>
1,832		
19,398		
\$504,539		
\$6,684		
(971)		
\$5,713		
172,847		
\$178,560		

VILLAGE OF OTISVILLE, MICHIGAN
STATEMENT OF NET ASSETS
PROPRIETARY FUND
AS OF JUNE 30, 2007

	<u>Enterprise</u>
<u>ASSETS</u>	
<u>CURRENT ASSETS</u>	
Cash and Cash Equivalents	\$249,564
Accounts Receivable	17,538
Total Current Assets	<u>\$267,102</u>
<u>NON-CURRENT ASSETS</u>	
Capital Assets:	
Land	85,579
Sewer System	3,021,300
Water System	854,663
Less: Accumulated Depreciation	<u>(1,806,062)</u>
Total Noncurrent Assets	<u>\$2,155,480</u>
<u>TOTAL ASSETS</u>	<u><u>\$2,422,582</u></u>
<u>LIABILITIES</u>	
<u>CURRENT LIABILITIES</u>	
Accounts Payable	\$2,999
Due to Other Funds	1,264
Current Portion of Long-Term Obligations	21,283
Total Current Liabilities	<u>\$25,546</u>
<u>NON-CURRENT LIABILITIES</u>	
Non-Current Portion of Long-Term Obligations	<u>241,757</u>
<u>TOTAL LIABILITIES</u>	<u>\$267,303</u>
<u>NET ASSETS</u>	
<u>NET ASSETS</u>	
Invested in Capital Assets, Net of Related Debt	1,892,440
Designated	203,379
Unrestricted	59,460
Total Net Assets	<u>\$2,155,279</u>
<u>TOTAL LIABILITIES AND NET ASSETS</u>	<u><u>\$2,422,582</u></u>

See accompanying notes to the basic financial statements.

VILLAGE OF OTISVILLE, MICHIGAN
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2007

	<u>Enterprise</u>
<u>OPERATING REVENUES</u>	
Charges for Services	\$223,816
<u>OPERATING EXPENSES</u>	
Salaries and Wages	75,071
Fringe Benefits	58,234
Retirement	609
Office Expense	274
Interest Expense	8,028
Agent Fees	301
Postage	1,715
Gas and Oil	547
Operating Supplies	8,079
Chemicals	2,915
Testing Fees	5,520
Equipment Maintenance	7,956
Equipment Rental	9,694
Contracted Services	10,225
Purchase of Equipment	400
Telephone	3,175
Insurance	10,000
Lights and Heat	12,538
Depreciation	74,419
Education	725
Total Operating Expenses	<u>\$290,425</u>
Operating (Loss)	<u>(\$66,609)</u>
<u>NONOPERATING REVENUES (EXPENSES)</u>	
Transfers from Other Funds	971
Interest Revenue	9,520
Total Nonoperating Revenues (Expenses)	<u>\$10,491</u>
Change in Net Assets	<u>(\$56,118)</u>
<u>NET ASSETS - BEGINNING</u>	<u>2,211,397</u>
<u>NET ASSETS - ENDING</u>	<u><u>\$2,155,279</u></u>

See accompanying notes to the basic financial statements.

VILLAGE OF OTISVILLE, MICHIGAN
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2007

	<u>Enterprise</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>	
Cash Received from Service Users	\$223,956
Cash Payments for Goods and Services	(134,659)
Cash Payments to Employees	<u>(75,071)</u>
Net Cash Provided By Operating Activities	\$14,226
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u>	
Cash Payments on Bonds Payable	(17,211)
Cash Transfer from Other Funds	<u>971</u>
Net Cash (Used In) Capital and Related Financing Activities	(\$16,240)
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>	
Interest Earned on Investments	<u>9,520</u>
<u>NET INCREASE IN CASH AND CASH EQUIVALENTS</u>	\$7,506
<u>BALANCES - BEGINNING OF YEAR</u>	<u>242,058</u>
<u>BALANCES - END OF YEAR</u>	<u><u>\$249,564</u></u>
<u>Reconciliation of Operating Income (Loss) to Net Cash Provided (Used)</u>	
<u>By Operating Activities</u>	
Operating (Loss)	(\$66,609)
Adjustments to Reconcile Operating (Loss) to Net Cash	
Provided (Used) by Operating Activities:	
Depreciation and Amortization	74,419
(Increase) Decrease in Assets	
Accounts Receivable	140
Prepaid Expenses	4,588
Increase (Decrease) in Liabilities	
Accounts Payable	<u>1,688</u>
<u>NET CASH PROVIDED BY OPERATING ACTIVITIES</u>	<u><u>\$14,226</u></u>

See accompanying notes to the basic financial statements.

VILLAGE OF OTISVILLE, MICHIGAN
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
AS OF JUNE 30, 2007

ASSETS

Cash and Cash Equivalents

\$4,714

LIABILITIES

Due to Other Groups

\$4,714

See accompanying notes to the basic financial statements.

VILLAGE OF OTISVILLE, MICHIGAN
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUND
FOR THE YEAR ENDED JUNE 30, 2007

<u>REVENUE</u>	
Donations and Fees	\$9,489
<u>EXPENDITURES</u>	
Purchased Services and Supplies	<u>14,841</u>
<u>CHANGE IN NET ASSETS</u>	(\$5,352)
<u>NET ASSETS - BEGINNING OF YEAR</u>	<u>10,066</u>
<u>NET ASSETS - END OF YEAR</u>	<u><u>\$4,714</u></u>

See accompanying notes to the basic financial statements.

VILLAGE OF OTISVILLE, MICHIGAN
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2007

	<u>Budgeted Amounts</u>			<u>Variance With</u>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Final Budget</u>
<u>REVENUES</u>				
Taxes	\$142,720	\$142,720	\$131,935	(\$10,785)
State Sources	97,999	97,999	94,556	(3,443)
Other Sources	90,582	90,582	63,322	(27,260)
Total Revenues	<u>\$331,301</u>	<u>\$331,301</u>	<u>\$289,813</u>	<u>(\$41,488)</u>
<u>EXPENDITURES</u>				
Legislative	11,500	11,500	13,086	(1,586)
Executive	16,750	16,750	13,394	3,356
Election	1,000	1,000	87	913
General Administration	34,259	34,259	26,980	7,279
Law Enforcement	133,084	132,584	124,400	8,184
Department of Public Works	120,208	130,208	109,930	20,278
Highways, Streets and Sidewalks	14,500	15,672	17,229	(1,557)
Village Parks	0	160	1,832	(1,672)
Total Expenditures	<u>\$331,301</u>	<u>\$342,133</u>	<u>\$306,938</u>	<u>\$35,195</u>
Excess (Deficiency) of Revenues				
Over (Under) Expenditures	\$0	(\$10,832)	(\$17,125)	(\$6,293)
<u>OTHER FINANCING SOURCES (USES)</u>	<u>0</u>	<u>22,555</u>	<u>22,555</u>	<u>0</u>
Net Change in Fund Balance	<u>\$0</u>	<u>\$11,723</u>	<u>\$5,430</u>	<u>(\$6,293)</u>
<u>FUND BALANCE - BEGINNING</u>			<u>18,655</u>	
<u>FUND BALANCE - ENDING</u>			<u>\$24,085</u>	

See accompanying notes to the basic financial statements.

VILLAGE OF OTISVILLE, MICHIGAN
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
SPECIAL REVENUE FUND - DOWNTOWN DEVELOPMENT AUTHORITY
FOR THE YEAR ENDED JUNE 30, 2007

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance With Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<u>REVENUES</u>				
Taxes	\$67,070	\$72,599	\$80,310	\$7,711
Other Sources	200	500	1,015	515
Total Revenues	<u>\$67,270</u>	<u>\$73,099</u>	<u>\$81,325</u>	<u>\$8,226</u>
<u>EXPENDITURES</u>				
DDA	<u>23,822</u>	<u>73,612</u>	<u>63,052</u>	<u>10,560</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	\$43,448	(\$513)	\$18,273	\$18,786
<u>OTHER FINANCING SOURCES (USES)</u>	<u>(33,500)</u>	<u>(33,500)</u>	<u>(32,168)</u>	<u>1,332</u>
Net Change in Fund Balance	<u>\$9,948</u>	<u>(\$34,013)</u>	<u>(\$13,895)</u>	<u>\$20,118</u>
<u>FUND BALANCE - BEGINNING</u>			<u>97,901</u>	
<u>FUND BALANCE - ENDING</u>			<u>\$84,006</u>	

See accompanying notes to the basic financial statements.

VILLAGE OF OTISVILLE, MICHIGAN
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
SPECIAL REVENUE FUND - MAJOR STREET
FOR THE YEAR ENDED JUNE 30, 2007

	<u>Budgeted Amounts</u>			
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Variance With Final Budget</u>
<u>REVENUES</u>				
State Sources	\$51,906	\$50,060	\$43,682	(\$6,378)
Other Sources	50	0	133	133
Total Revenues	<u>\$51,956</u>	<u>\$50,060</u>	<u>\$43,815</u>	<u>(\$6,245)</u>
<u>EXPENDITURES</u>				
Highways, Streets, Bridges	<u>51,956</u>	<u>68,378</u>	<u>49,373</u>	<u>19,005</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	\$0	(\$18,318)	(\$5,558)	\$12,760
<u>FUND BALANCE - BEGINNING</u>			<u>19,541</u>	
<u>FUND BALANCE - ENDING</u>			<u><u>\$13,983</u></u>	

See accompanying notes to the basic financial statements.

VILLAGE OF OTISVILLE, MICHIGAN
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
SPECIAL REVENUE FUND - VILLAGE IMPROVEMENT
FOR THE YEAR ENDED JUNE 30, 2007

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance With Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<u>REVENUES</u>				
Taxes	\$35,144	\$37,214	\$43,566	\$6,352
Other Sources	<u>0</u>	<u>1,600</u>	<u>997</u>	<u>(603)</u>
Total Revenues	\$35,144	\$38,814	\$44,563	\$5,749
 <u>OTHER FINANCING SOURCES (USES)</u>	 <u>(13,850)</u>	 <u>(26,470)</u>	 <u>(10,756)</u>	 <u>15,714</u>
Net Change in Fund Balance	\$21,294	\$12,344	\$33,807	\$21,463
 <u>FUND BALANCE - BEGINNING</u>			 <u>9,061</u>	
 <u>FUND BALANCE - ENDING</u>			 <u>\$42,868</u>	

See accompanying notes to the basic financial statements.

VILLAGE OF OTISVILLE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007

1) REPORTING ENTITY

The accompanying general purpose financial statements have been prepared in accordance with criteria established by the GASB for determining the various governmental organizations to be included in the reporting entity. The Village of Otisville's Village Council is the primary government which has oversight responsibility and control over all activities related to sanitation, public improvements, planning and zoning, and general administrative services within the Village. The Village receives funding from local, state and federal government sources and must comply with the accompanying requirements of these funding sources. However, the Village is not included in any other governmental "reporting entity" as defined by GASB pronouncements since the Village Council is a publicly elected governing body that has separate legal standing and is fiscally independent of other governmental entities. As such, the Village Council has decision making authority, the authority to levy taxes and determine its budget, the power to designate management, the ability to significantly influence operations and primary accountability for fiscal matters.

Education services are provided to citizens through the several local school Villages which are separate governmental entities.

This report does include the Downtown Development Authority, of which the Village of Otisville has oversight responsibilities.

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Village of Otisville conform to generally accepted accounting principles as applicable to governmental entities. The following is a summary of the significant accounting policies:

In June 1999 the Governmental Accounting Standards Board (GASB) issued Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments. Certain of the significant changes in the Statement include the following:

A Management Discussion and Analysis (MD&A) section to provide an analysis of the Village's overall financial position and results of operations.

Financial statements prepared with full accrual accounting for all of the Village's activities.

- A change in the fund financial statements to focus on the major funds.

These and other changes are reflected in the accompanying financial statements and notes to the financial statements.

A) BASIC FINANCIAL STATEMENTS – GOVERNMENT-WIDE STATEMENTS

The Village's basic financial statements include both government-wide (reporting the Village as a whole) and fund financial statements (reporting the Village's major funds). The government-wide financial statements categorize primary activities as either governmental or business type.

In the government-wide Statement of Net Assets, the governmental activities column is presented on a consolidated basis and is reported on a full-accrual economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The Village's net assets are reported in three parts: invested in capital assets net of related debt; restricted net assets; and unrestricted net assets. The Village first utilizes restricted resources to finance qualifying activities.

The government-wide Statement of Activities reports both the gross and net cost of each of the Village's functions. General government revenues also support the functions. The Statement of Activities reduces gross expenses by related program revenues, operating and capital grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary grants. The net costs by function are normally covered by general revenue (property taxes, state and federal sources, interest income, etc.).

VILLAGE OF OTISVILLE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B) BASIC FINANCIAL STATEMENTS - FUND FINANCIAL STATEMENTS

The accounts of the Village are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues, and expenditures. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds of the Village are grouped into the categories governmental and proprietary.

GOVERNMENTAL FUNDS

General Fund

This fund is used to account for all financial transactions not accounted for in another fund, including the general operating expenditures of the Village. Revenues are derived primarily from property taxes and state distributions, grants and other intergovernmental revenues.

Special Revenue Fund

The Special Revenue Fund is used to account for the proceeds of specific revenue sources (other than special assessments, expendable trusts, or major capital projects) that are legally restricted to expenditures for specified purposes. Major and local street funds account for the resources of state gas and weight revenues that are restricted for use on streets.

Debt Retirement Fund

The Debt Retirement Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

PROPRIETARY FUND

Enterprise Fund

The Enterprise Fund is used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The Village applies all GASB pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

FIDUCIARY FUNDS

These funds account for assets held by the Village in a trustee capacity or as an agent for individuals, private organizations and other governmental units.

C) BASIS OF ACCOUNTING/MEASUREMENT FOCUS

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in current assets. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during a period.

VILLAGE OF OTISVILLE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C) BASIS OF ACCOUNTING/MEASUREMENT FOCUS (Continued)

Accrual

Governmental activity in the government-wide financial statements is presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred. The proprietary fund also uses the accrual basis of accounting.

Modified Accrual

The governmental funds financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within 60 days of year end. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principal and interest on general obligation long-term debt is recognized when due.

Those revenues susceptible to accrual are property taxes, state aid, interest revenue, grants and charges for services. Other revenue is recorded when received.

The Village reports deferred revenue on its governmental funds balance sheet. Deferred revenues arise when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when the Village receives resources before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the government has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

D) CASH AND CASH EQUIVALENTS

The Village considers highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

Investments are reported at fair value which is determined using selected bases. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national exchange are valued at the last reported sales price and investments that do not have an established market are reported at estimated fair value. Cash deposits are reported at carrying amount which reasonably estimates fair value.

E) BAD DEBTS

The Village provides an allowance for doubtful accounts equal to the estimated losses that will be incurred in the collection of all receivables. The estimated losses are based on a review of the current status of the existing receivables.

F) CAPITAL ASSETS

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) using a \$1,000 capitalization threshold and updated for additions and retirements during the year. In accordance with the provisions of GASB 34 the Village has elected to capitalize the cost of government fund infrastructure assets after the implementation date of GASB 34. Prior acquisitions or construction costs of infrastructure assets will not be recorded.

VILLAGE OF OTISVILLE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F) CAPITAL ASSETS (Continued)

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Land	N/A
Buildings and Improvements	20 – 50 Years
Furniture and Equipment	5 Years
Vehicles	5 Years
System Infrastructure	50 Years

G) INTERFUND BALANCES

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as “interfund receivables/payables.” These amounts are eliminated in the governmental activities columns of the statement of net assets.

H) NET ASSETS

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Village or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

I) ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

J) BUDGETS

The Village follows these procedures in establishing the budgetary data reflected in the financial statements:

- 1) Two to three months prior to the beginning of the ensuing fiscal year, the Village Council reviews a proposed operating budget which includes proposed revenues and expenditures.
- 2) Prior to the beginning of the ensuing fiscal year, the Village Council passes a general appropriations act reflecting formal budget approval in accordance with the Michigan Uniform Budget Act.
- 3) Budgets for the general and special revenue funds are adopted on a basis consistent with accounting principles generally accepted in the United States of America (GAAP).
- 4) Budgeted amounts in this report are as originally adopted or as amended by the Village Council. Amendments were not material in relation to the original appropriations which were amended.

K) COMPENSATED ABSENCES

Under agreements with the Village, individual employees have a vested right to receive payments for unused sick leave under formulas and conditions specified in the agreements. As of June 30, 2007, substantially all of these benefits had been paid and are reflected in the financial statements.

VILLAGE OF OTISVILLE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007

3) STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY – BUDGET VIOLATIONS

1968 PA2 provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the Village's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. The approved budgets of the Village for these budgetary funds were adopted to the functional level.

During the year ended June 30, 2007, the Village incurred expenditures in budgetary funds which were in excess of the amounts appropriated.

4) DEPOSITS AND INVESTMENTS

As of June 30, 2007, the Village had no investments.

Interest rate risk. The risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the Village's cash requirements.

Credit risk. State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs).

Concentration of credit risk. The risk of loss attributed to the magnitude of the Village's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Concentration of credit risk. The risk of loss attributed to the magnitude of the Village's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized. The Village did not have any investments as of June 30, 2007.

Custodial credit risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, the Village's deposits may not be returned to it. As of June 30, 2007, \$305,848 of the Village's bank balance of \$432,715 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the Village's name.

Custodial credit risk – investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the Village will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

The risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities allowed by law; and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the Village will do business.

Foreign currency risk. The Village is not authorized to invest in investments which have this type of risk.

The above amounts as previously report in Note 4:

Deposits – Including Fiduciary Funds of \$4,714	\$ 427,887
Investments	<u>0</u>
 TOTAL	 <u>\$ 427,887</u>

VILLAGE OF OTISVILLE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007

4) DEPOSITS AND INVESTMENTS (Continued)

The above amounts are reported in the financial statements as follows:

Cash Agency Fund	\$ 4,714
Cash – Village Wide	423,173
Investments – Village Wide	<u>0</u>
<u>TOTAL</u>	<u>\$ 427,887</u>

5) CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2007, was as follows:

	Balance July 1, 2006	Additions	Deductions	Balance June 30, 2007
<u>GOVERNMENTAL ACTIVITIES</u>				
Land	\$2,000	\$0	\$0	\$2,000
Land Improvements	335,000	0	0	335,000
Buildings	52,000	0	0	52,000
Equipment	253,450	48,623	0	302,073
Totals at Historical Cost	<u>\$642,450</u>	<u>\$48,623</u>	<u>\$0</u>	<u>\$691,073</u>
Less: Accumulated Depreciation				
Land Improvements	(310,657)	(1,093)	0	(311,750)
Buildings	(23,920)	(940)	0	(24,860)
Equipment	(234,802)	(3,930)	0	(238,732)
Total Accumulated Depreciation	<u>(\$569,379)</u>	<u>(\$5,963)</u>	<u>\$0</u>	<u>(\$575,342)</u>
<u>GOVERNMENTAL ACTIVITIES</u>				
<u>CAPITAL ASSETS - NET</u>	<u>\$73,071</u>	<u>\$42,660</u>	<u>\$0</u>	<u>\$115,731</u>

Capital asset activity for the fiscal year ended June 30, 2007, was as follows:

	Balance July 1, 2006	Additions	Deductions	Balance June 30, 2007
<u>BUSINESS - TYPE ACTIVITIES</u>				
Land	\$110,579	\$0	\$0	\$110,579
Sewer System	2,996,300	0	0	2,996,300
Water System	854,663	0	0	854,663
Less: Accumulated Depreciation	<u>(1,731,643)</u>	<u>(74,419)</u>	<u>0</u>	<u>(1,806,062)</u>
<u>BUSINESS - TYPE ACTIVITIES</u>				
<u>CAPITAL ASSETS - NET</u>	<u>\$2,229,899</u>	<u>(\$74,419)</u>	<u>\$0</u>	<u>\$2,155,480</u>

VILLAGE OF OTISVILLE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007

5) CAPITAL ASSETS (Continued)

Depreciation expense, when appropriate, was allocated to governmental functions. Depreciation expense that was not allocated appears on the statement of activities as "unallocated". Depreciation was recorded on the statement of activities as follows:

	Governmental	Business – Type	TOTAL
Village Parks	\$ 1,093	\$ 0	\$ 1,093
Highways, Streets & Sidewalks	500	0	500
Department of Public Works	3,293	0	3,293
Law Enforcement	1,077	0	1,077
Sewer	0	59,926	59,926
Water	0	14,493	14,493
<u>TOTAL</u>	<u>\$ 5,963</u>	<u>\$ 74,419</u>	<u>\$ 80,382</u>

6) FUND BALANCE DESIGNATIONS

The Village Council has adopted a resolution to designated fund balances as of June 30, 2007 as follows:

<u>DESIGNATED FUND BALANCE</u>	General	Special Revenue	Enterprise
DPW Equipment Replacement	\$ 15,528	\$ 0	\$ 0
Police Equipment Replacement	1,959	0	0
Flower Funds	178	0	0
Sewer Replacement	0	0	203,379
Highway Maintenance	0	17,897	0
Sidewalk Replacement	711	0	0
King Estate	3,317	0	0
<u>TOTAL DESIGNATED FUND BALANCE</u>	<u>\$ 21,693</u>	<u>\$ 17,897</u>	<u>\$ 203,379</u>

7) PROPERTY TAX

The Village levies its property taxes on July 1 and collects its own property taxes until March 1st. The delinquent real property taxes of the Village are purchased by the County of Genesee, and delinquent personal property taxes continue to be collected by the Village and recorded as revenue as they are collected. The County sells tax notes, the proceeds of which have been used to pay the Village for these property taxes. These taxes have been recorded as revenue for the current year.

8) GENERAL LONG-TERM DEBT

A) MICHIGAN TRANSPORTATION FUND BONDS PAYABLE

The Village issued Michigan Transportation Fund Bonds dated May 1, 1996 in the aggregate amount of \$200,000. The bonds require annual principal payments and semi-annual interest payments at 5.5% per annum. The principal balance at June 30, 2007 was \$67,000.

B) 1998 WATER REVENUE BONDS PAYABLE

The Village issued water revenue bonds dated September 29, 1998 in the aggregate amount of \$375,000 for the purpose of defraying a portion of the cost of the water project. The bonds require annual principal payments and semi-annual interest payment at 2.50% per annum. The bonds mature October 1, 2018 and the principal balance at June 30, 2007 was \$208,040. The bonds are issued through the Michigan Department of Environmental Quality's Water Revolving Fund.

VILLAGE OF OTISVILLE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007

8) GENERAL LONG-TERM DEBT (Continued)

C) 1998 A WATER REVENUE BONDS PAYABLE

The Village issued water revenue bonds dated October 1, 1998 in the aggregate amount of \$95,000 for the purpose of defraying a portion of the cost of the water project. The bonds require annual principal payments and semi-annual interest payment at 4.65% per annum. The bonds mature October 1, 2017 and the principal balance at June 30, 2007 was \$55,000.

<u>JUNE 30</u>	<u>Governmental</u>		<u>Business-Type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2008	\$16,000	\$3,245	\$21,283	\$7,439
2009	16,000	2,366	21,283	6,799
2010	17,000	1,457	21,283	6,159
2011	18,000	495	21,283	5,520
2012	0	0	21,283	4,880
2013-2017	0	0	110,486	14,758
2018-2019	0	0	46,139	1,150
<u>TOTAL</u>	<u>\$67,000</u>	<u>\$7,563</u>	<u>\$263,040</u>	<u>\$46,705</u>

The interest expenditures on long-term obligations for the year were \$12,126.

	<u>Balance</u>			<u>Balance</u>	<u>Amount Due</u>
	<u>7-1-06</u>	<u>Additions</u>	<u>Deductions</u>	<u>6-30-07</u>	<u>In One Year</u>
<u>Governmental Activities:</u>					
Bonds Payable	\$82,000	\$0	\$15,000	\$67,000	\$16,000
<u>Business-Type Activities:</u>					
Bonds Payable	\$280,252	\$0	\$17,212	\$263,040	\$21,283

9) INTERFUND BALANCES

Interfund balances at June 30, 2007 consisted of the following:

		<u>DUE FROM</u>		
<u>DUE TO</u>		<u>General</u>	<u>Special</u>	
		<u>Fund</u>	<u>Revenue</u>	<u>Total</u>
General Fund		\$0	\$4,887	\$4,887
Special Revenue		0	1,740	1,740
Water Fund		1,264	0	1,264
<u>TOTAL</u>		<u>\$1,264</u>	<u>\$6,627</u>	<u>\$7,891</u>

These balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting systems, and (3) payments between funds are made.

VILLAGE OF OTISVILLE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007

10) INTERFUND TRANSFERS

Interfund transfers for the year ended June 30, 2007, consisted of the following:

TRANSFERS TO	TRANSFERS FROM			
	Sewer Fund	Water Fund	1996 Debt	Total
General Fund	\$22,555	\$0	\$0	\$22,555
Special Revenue Fund	0	23,526	19,398	42,924
<u>TOTAL</u>	<u>\$22,555</u>	<u>\$23,526</u>	<u>\$19,398</u>	<u>\$65,479</u>

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them (2) move receipts restricted to debt service from the funds collecting the receipts to the fund servicing the debt as debt payments become due, (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations and (4) reimburse expenditures or payment of interfund goods and services.

11) RETIREMENT PLAN

The Village has a defined benefit pension plan covering substantially all employees. The plan is operated by the State of Michigan's Municipal Employees Retirement System (MERS), which is an agent multiple-employer public employee retirement system (PERS). The pension plan provides retirement, survivor and disability benefits. Separate financial statements for the Village are prepared by MERS on an annual basis.

Basically, all Village employees are eligible to participate in the MERS. A basic plan member may retire at age 60 with 10 or more years of credited service. The annual retirement benefit, payable monthly for life, is equal to 2 percent of a member's five year final average compensation. Final average compensation is the employee's average salary over the last 5 years of credited service. Benefits fully vest upon reaching 10 years of service.

The Village's current year covered payroll and its total current year payroll for all employees amounted to \$172,618 and \$215,582, respectively. All required contributions to the plan are made by the employer.

The "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits adjusted for the effects of the projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess the MERS' funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due and make comparisons among PERS and employers. The MERS makes separate measurements of assets and pension benefit obligation for individual municipalities. The pension benefit obligation at December 31, 2006 (latest reporting date available) for the Village, determined through an actuarial valuation performed as of that date, was \$798,823. The benefit obligation is for vested and nonvested current employees. The Village's net assets available for benefits on that date (valued at cost) were \$725,167 leaving under funding of \$73,656. The Village made contributions of \$19,258 for the fiscal year ended June 30, 2007. The investment return rate and pay increase assumption used in making the actuarial valuation were 8% and 4.5 %, respectively. The Village funding policy is to contribute annually an amount sufficient to meet the minimum funding requirements set forth in the Employee Retirement Income Security Act of 1974, plus such additional amounts as the Village may determine to be appropriate. Significant actuarial assumptions used to compute contribution requirements are the same as those used to compute the pension benefit obligations.

VILLAGE OF OTISVILLE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007

11) RETIREMENT PLAN (Continued)

Ten year historical trend information showing the MERS' progress in accumulating sufficient assets to pay benefits when due is presented in the December 31, 2006 comprehensive annual financial report. Three year historical trend information is as follows:

VALUATION DATE	NET ASSETS AVAILABLE FOR BENEFITS	PENSION BENEFIT OBLIGATION	PERCENT FUNDED	ASSETS IN EXCESS OF <u>PENSION BENEFIT OBLIGATION</u> AMOUNT	AS A PERCENT OF COVERED PAYROLL
12-31-04	\$ 603,932	\$ 654,270	92%	\$ (50,338)	28%
12-31-05	658,704	692,081	95%	(33,377)	29%
12-31-06	725,167	798,823	91%	(73,656)	30%

12) RISK MANAGEMENT

The Village is exposed to various risks of loss in conducting its operations, from property and casualty theft, damage to various tort and liability claims and workman's compensation claims. The Village limits its exposure to such claims through its participation in and payments of premiums for insurance coverages. The Village management believes that this provides sufficient coverage to protect the Village from any significant adverse financial impact.

**OTHER SUPPLEMENTAL
INFORMATION**

VILLAGE OF OTISVILLE, MICHIGAN
PROPRIETARY FUND
COMBINING BALANCE SHEETS
AS OF JUNE 30, 2007

	<u>ENTERPRISE FUND</u>		
		<u>WATER FUND</u>	
	<u>Sewer Fund</u>	<u>Receiving Fund</u>	<u>Operation & Maintenance Fund</u>
<u>ASSETS</u>			
Cash and Cash Equivalents	\$209,969	\$0	\$30,507
Accounts Receivable	8,621	0	8,917
Land	85,579	0	0
Sewer System	2,996,300	0	25,000
Water System	0	0	854,663
Accumulated Depreciation	(1,613,426)	0	(192,636)
<u>TOTAL ASSETS</u>	<u>\$1,687,043</u>	<u>\$0</u>	<u>\$726,451</u>
<u>LIABILITIES</u>			
Accounts Payable	\$106	\$0	\$2,893
Due to Other Funds	0	0	1,264
Bonds Payable	0	0	263,040
Total Liabilities	\$106	\$0	\$267,197
<u>FUND EQUITY</u>			
Retained Earnings - Reserved	203,379	0	0
Retained Earnings - Unreserved	1,483,558	0	459,254
Total Fund Equity	\$1,686,937	\$0	\$459,254
<u>TOTAL LIABILITIES AND FUND EQUITY</u>	<u>\$1,687,043</u>	<u>\$0</u>	<u>\$726,451</u>

ENTERPRISE FUND
WATER FUND

Bond Interest & Redemption		Surplus Fund	TOTAL WATER FUND	TOTAL AFTER INTERFUND ELIMINATIONS
1998 A Revenue Bonds	1998 Revenue Bonds			
\$2,339	\$6,749	\$0	\$39,595	\$249,564
0	0	0	8,917	17,538
0	0	0	0	85,579
0	0	0	25,000	3,021,300
0	0	0	854,663	854,663
0	0	0	(192,636)	(1,806,062)
<u>\$2,339</u>	<u>\$6,749</u>	<u>\$0</u>	<u>\$735,539</u>	<u>\$2,422,582</u>
\$0	\$0	\$0	\$2,893	\$2,999
0	0	0	1,264	1,264
0	0	0	263,040	263,040
<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$267,197</u>	<u>\$267,303</u>
0	0	0	0	203,379
2,339	6,749	0	468,342	1,951,900
<u>\$2,339</u>	<u>\$6,749</u>	<u>\$0</u>	<u>\$468,342</u>	<u>\$2,155,279</u>
<u>\$2,339</u>	<u>\$6,749</u>	<u>\$0</u>	<u>\$735,539</u>	<u>\$2,422,582</u>

VILLAGE OF OTISVILLE, MICHIGAN
PROPRIETARY FUND
COMBINING STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN RETAINED EARNINGS
FOR THE YEAR ENDED JUNE 30, 2007

	ENTERPRISE FUND		
	WATER FUND		
	Sewer Fund	Receiving Fund	Operation & Maintenance Fund
<u>OPERATING REVENUES</u>			
Charges for Services	\$111,408	\$0	\$112,408
<u>OPERATING EXPENSES</u>			
Salaries and Wages	40,835	0	34,236
Fringe Benefits	32,600	0	25,634
Retirement	0	0	609
Office Expense	0	0	0
Interest Expense	0	0	0
Agent Fees	0	0	0
Postage	0	0	1,715
Gas and Oil	547	0	0
Operating Supplies	2,264	0	5,815
Chemicals	0	0	2,915
Testing Fees	2,025	0	3,495
Equipment Maintenance	3,444	0	4,512
Equipment Rental	8,162	0	1,532
Contracted Services	4,598	0	5,627
Purchase of Equipment	400	0	0
Telephone	1,791	0	1,384
Insurance	5,000	0	5,000
Lights and Heat	8,038	0	4,500
Depreciation	59,926	0	14,493
Education	350	0	375
Total Operating Expenses	\$169,980	\$0	\$111,842
Operating Income (Loss)	(\$58,572)	\$0	\$566
<u>NON-OPERATING REVENUES (EXPENSES)</u>			
Interest Revenue	9,131	0	360
Transfers to (from) Other Funds	(22,555)	0	17,212
Total Non-Operating Revenues	(\$13,424)	\$0	\$17,572
<u>NET INCOME (LOSS)</u>	(\$71,996)	\$0	\$18,138
<u>RETAINED EARNINGS -</u> <u>BEGINNING OF YEAR</u>	1,758,933	0	441,116
<u>RETAINED EARNINGS -</u> <u>END OF YEAR</u>	\$1,686,937	\$0	\$459,254

ENTERPRISE FUND				
WATER FUND				
Bond Interest & Redemption		Surplus Fund	TOTAL WATER FUND	TOTAL ENTERPRISE FUND
1998 A Revenue Bonds	1998 Revenue Bonds			
\$0	\$0	\$0	\$112,408	\$223,816
0	0	0	34,236	75,071
0	0	0	25,634	58,234
0	0	0	609	609
200	74	0	274	274
2,674	5,354	0	8,028	8,028
301	0	0	301	301
0	0	0	1,715	1,715
0	0	0	0	547
0	0	0	5,815	8,079
0	0	0	2,915	2,915
0	0	0	3,495	5,520
0	0	0	4,512	7,956
0	0	0	1,532	9,694
0	0	0	5,627	10,225
0	0	0	0	400
0	0	0	1,384	3,175
0	0	0	5,000	10,000
0	0	0	4,500	12,538
0	0	0	14,493	74,419
0	0	0	375	725
\$3,175	\$5,428	\$0	\$120,445	\$290,425
(\$3,175)	(\$5,428)	\$0	(\$8,037)	(\$66,609)
8	21	0	389	9,520
2,260	4,054	0	23,526	971
\$2,268	\$4,075	\$0	\$23,915	\$10,491
(\$907)	(\$1,353)	\$0	\$15,878	(\$56,118)
3,246	8,102	0	452,464	2,211,397
\$2,339	\$6,749	\$0	\$468,342	\$2,155,279

VILLAGE OF OTISVILLE, MICHIGAN
COMBINING BALANCE SHEET
OTHER GOVERNMENTAL FUNDS
AS OF JUNE 30, 2007

	Special Revenue Funds	Debt Service Fund	Total Other Governmental Funds
<u>ASSETS</u>			
Cash and Cash Equivalents	\$7,792	\$1,227	\$9,019
Accounts Receivable	2,859	0	2,859
Due from Other Funds	1,740	0	1,740
<u>TOTAL ASSETS</u>	<u>\$12,391</u>	<u>\$1,227</u>	<u>\$13,618</u>
<u>FUND BALANCES</u>			
Reserved	\$4,737	\$0	\$4,737
Unreserved:			
Undesignated, Reported In:			
Special Revenue Fund	7,654	0	7,654
Debt Retirement	0	1,227	1,227
<u>TOTAL FUND EQUITY</u>	<u>\$12,391</u>	<u>\$1,227</u>	<u>\$13,618</u>

VILLAGE OF OTISVILLE, MICHIGAN
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
OTHER GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2007

	Special Revenue Funds	Debt Service Fund	Total Other Governmental Funds
<u>REVENUES</u>			
State Sources	\$16,590	\$0	\$16,590
Other Sources	35,095	22	35,117
Total Revenues	<u>\$51,685</u>	<u>\$22</u>	<u>\$51,707</u>
<u>EXPENDITURES</u>			
Special Revenue	65,778	0	65,778
Debt Service			
Principal	0	15,000	15,000
Interest	0	4,098	4,098
Agent Fees	0	300	300
Total Expenditures	<u>\$65,778</u>	<u>\$19,398</u>	<u>\$85,176</u>
(Deficiency) of Revenues			
(Under) Expenditures	(\$14,093)	(\$19,376)	(\$33,469)
<u>OTHER FINANCING SOURCES (USES)</u>			
Transfers to (from) Other Funds	0	19,398	19,398
Net Change in Fund Balance	<u>(\$14,093)</u>	<u>\$22</u>	<u>(\$14,071)</u>
<u>NET ASSETS - BEGINNING</u>	<u>26,484</u>	<u>1,205</u>	<u>27,689</u>
<u>NET ASSETS - ENDING</u>	<u>\$12,391</u>	<u>\$1,227</u>	<u>\$13,618</u>

VILLAGE OF OTISVILLE, MICHIGAN
SPECIAL REVENUE FUND
COMBINING BALANCE SHEETS
AS OF JUNE 30, 2007

	<u>Garbage Fund</u>	<u>Local Street</u>	<u>Total</u>
<u>ASSETS</u>			
Cash and Cash Equivalents	\$872	\$6,920	\$7,792
Accounts Receivable	2,859	0	2,859
Due from Other Funds	<u>0</u>	<u>1,740</u>	<u>1,740</u>
<u>TOTAL ASSETS</u>	<u>\$3,731</u>	<u>\$8,660</u>	<u>\$12,391</u>
<u>FUND EQUITY</u>			
Reserved	\$0	\$4,737	\$4,737
Unreserved and Undesignated	<u>3,731</u>	<u>3,923</u>	<u>7,654</u>
<u>TOTAL FUND EQUITY</u>	<u>\$3,731</u>	<u>\$8,660</u>	<u>\$12,391</u>

VILLAGE OF OTISVILLE, MICHIGAN
SPECIAL REVENUE FUND
COMBINING STATEMENTS OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2007

	<u>Garbage Fund</u>	<u>Local Street</u>	<u>Total</u>
<u>REVENUES</u>			
<u>State Sources</u>	\$0	\$16,590	\$16,590
<u>Other Sources</u>			
Charges for Services	34,943	0	34,943
Interest	21	131	152
Total Other Sources	<u>\$34,964</u>	<u>\$131</u>	<u>\$35,095</u>
Total Revenues	<u>\$34,964</u>	<u>\$16,721</u>	<u>\$51,685</u>
<u>EXPENDITURES</u>			
<u>Garbage Collection</u>	41,980	0	41,980
<u>Highways, Streets and Bridges</u>			
Salaries and Wages	0	12,360	12,360
Fringe Benefits	0	1,372	1,372
Salt, Gravel and Chemicals	0	874	874
Contracted Services	0	1,345	1,345
Building and Equipment Rental	0	7,847	7,847
Total Highways, Streets and Bridges	<u>\$0</u>	<u>\$23,798</u>	<u>\$23,798</u>
Total Expenditures	<u>\$41,980</u>	<u>\$23,798</u>	<u>\$65,778</u>
<u>NET CHANGE IN FUND BALANCE</u>	<u>(\$7,016)</u>	<u>(\$7,077)</u>	<u>(\$14,093)</u>
<u>FUND BALANCE - BEGINNING OF YEAR</u>	<u>\$10,747</u>	<u>\$15,737</u>	<u>\$26,484</u>
<u>FUND BALANCE - END OF YEAR</u>	<u>\$3,731</u>	<u>\$8,660</u>	<u>\$12,391</u>

VILLAGE OF OTISVILLE, MICHIGAN
GENERAL FUND
SCHEDULE OF REVENUES
FOR THE YEAR ENDED JUNE 30, 2007

TAX COLLECTIONS

Current Property Taxes	\$130,425
Penalties and Interest on Taxes	1,510
Total Tax Collections	<u>\$131,935</u>

STATE SOURCES

Sales and Use Tax	92,896
Liquor Tax	1,660
Total State Sources	<u>\$94,556</u>

OTHER SOURCES

Equipment Rental	40,541
Building Rental	150
Charges for Services	1,816
Interest Earned	232
Fines, Fees and Permits	5,186
Miscellaneous Revenue	15,397
Total Other Sources	<u>\$63,322</u>
Total Revenues	<u>\$289,813</u>

OTHER FINANCING SOURCES

Transfer from Other Funds	<u>22,555</u>
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TOTAL REVENUES

\$312,368

VILLAGE OF OTISVILLE, MICHIGAN
GENERAL FUND
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES
FOR THE YEAR ENDED JUNE 30, 2007

LEGISLATIVEVillage Council

Salaries and Wages	\$1,880
Contract Services	1,085
Dues and Subscriptions	825
Education and Training	430
Insurance	6,000
Miscellaneous	2,866
Total Legislative	<u>\$13,086</u>

EXECUTIVEVillage President

Salaries and Wages	400
Education and Training	109
Miscellaneous	749
Total Village President	<u>\$1,258</u>

Village Manager

Salaries	9,844
Dues and Subscriptions	484
Fringe Benefits	1,627
Miscellaneous	120
Education and Training	61
Total Village Manager	<u>\$12,136</u>
Total Executive	<u>\$13,394</u>

ELECTIONS

Advertising and Printing	<u>87</u>
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GENERAL SERVICES ADMINISTRATIONAttorney

Professional Services	4,169
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Auditor

Professional Services	2,250
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Village Clerk

Salaries and Wages	9,592
Fringe Benefits	532
Office Expense	682
Postage	324
Contract Services	1,865
Education and Training	219
Total Village Clerk	<u>\$13,214</u>

VILLAGE OF OTISVILLE, MICHIGAN
GENERAL FUND
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES
FOR THE YEAR ENDED JUNE 30, 2007

GENERAL SERVICES ADMINISTRATION (Continued)

Board of Review

Salaries and Wages	\$800
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Village Treasurer

Salaries and Wages	4,119
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Fringe Benefits	97
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Office Expense	289
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Contract Services	1,948
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Education and Training	94
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Total Village Treasurer	\$6,547
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Total General Services Administration	\$26,980
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LAW ENFORCEMENT

Salaries and Wages	51,661
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Fringe Benefits	20,723
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Retirement	2,392
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Office Expense	478
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Postage	65
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Gas and Oil	3,498
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Uniforms	2,178
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Membership	1,566
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Contract Services	92
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Telephone	1,813
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Education and Training	750
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Automobile Maintenance	469
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Equipment Maintenance	386
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Insurance	12,500
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Equipment	24,724
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Miscellaneous Expense	1,105
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Total Law Enforcement	\$124,400
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VILLAGE OF OTISVILLE, MICHIGAN
GENERAL FUND
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES
FOR THE YEAR ENDED JUNE 30, 2007

DEPARTMENT OF PUBLIC WORKS

Salaries and Wages	\$33,211
Fringe Benefits	1,651
Office Expense	622
Postage	559
Gas and Oil	5,994
Uniforms	1,878
Operating Supplies	4,257
Equipment Maintenance	7,530
Contracted Services	3,321
Telephone	2,232
Education and Training	200
Insurance	4,673
Utilities	6,535
Miscellaneous	1,009
Equipment Acquisition	36,258
Total Department of Public Works	<u>\$109,930</u>

HIGHWAYS, STREETS AND SIDEWALKS

<u>Street Lighting</u>	
Street Lights	14,058
Operating Supplies	1,803
Contract Services	1,368
Total Sidewalk Maintenance	<u>\$3,171</u>
Total Highways, Streets and Sidewalks	<u>\$17,229</u>

VILLAGE PARKS

Contracted Services	160
Operating Supplies	150
Equipment Replacement	1,522
Total Village Parks	<u>\$1,832</u>

TOTAL EXPENDITURE
\$306,938

VILLAGE OF OTISVILLE, MICHIGAN
SCHEDULE OF BOND PRINCIPAL AND INTEREST REQUIREMENTS
AS OF JUNE 30, 2007

MICHIGAN TRANSPORTATION BONDS

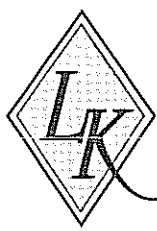
DATE OF MATURITY	PRINCIPAL REQUIREMENT	DECEMBER INTEREST REQUIREMENT	JUNE INTEREST REQUIREMENT	ANNUAL TOTAL
2007-2008	\$16,000	\$1,842	\$1,403	\$19,245
2008-2009	16,000	1,403	963	18,366
2009-2010	17,000	962	495	18,457
2010-2011	18,000	495	0	18,495
<u>TOTALS</u>	<u>\$67,000</u>	<u>\$4,702</u>	<u>\$2,861</u>	<u>\$74,563</u>

1998 WATER REVENUE BOND

DATE OF MATURITY	INTEREST RATE	PRINCIPAL REQUIREMENT	OCTOBER INTEREST REQUIREMENT	APRIL INTEREST REQUIREMENT	ANNUAL TOTAL
2007-2008	2.50%	\$16,283	\$2,600	\$2,397	\$21,280
2008-2009	2.50%	16,283	2,397	2,193	20,873
2009-2010	2.50%	16,283	2,193	1,990	20,466
2010-2011	2.50%	16,283	1,990	1,786	20,059
2011-2012	2.50%	16,283	1,786	1,583	19,652
2012-2013	2.50%	16,283	1,583	1,379	19,245
2013-2014	2.50%	16,283	1,379	1,176	18,838
2014-2015	2.50%	16,283	1,176	972	18,431
2015-2016	2.50%	16,283	972	769	18,024
2016-2017	2.50%	20,354	769	514	21,637
2017-2018	2.50%	20,354	514	260	21,128
2018-2019	2.50%	20,785	260	0	21,045
<u>TOTALS</u>		<u>\$208,040</u>	<u>\$17,619</u>	<u>\$15,019</u>	<u>\$240,678</u>

VILLAGE OF OTISVILLE, MICHIGAN
SCHEDULE OF BOND PRINCIPAL AND INTEREST REQUIREMENTS
AS OF JUNE 30, 2007

<u>1998 A WATER REVENUE BOND</u>					
DATE OF MATURITY	INTEREST RATE	PRINCIPAL REQUIREMENT	OCTOBER INTEREST REQUIREMENT	APRIL INTEREST REQUIREMENT	ANNUAL TOTAL
2007-2008	4.65%	\$5,000	\$1,279	\$1,163	\$7,442
2008-2009	4.65%	5,000	1,163	1,046	7,209
2009-2010	4.65%	5,000	1,046	930	6,976
2010-2011	4.65%	5,000	930	814	6,744
2011-2012	4.65%	5,000	814	697	6,511
2012-2013	4.65%	5,000	697	581	6,278
2013-2014	4.65%	5,000	581	465	6,046
2014-2015	4.65%	5,000	465	349	5,814
2015-2016	4.65%	5,000	349	233	5,582
2016-2017	4.65%	5,000	233	116	5,349
2017-2018	4.65%	5,000	116	0	5,116
<u>TOTALS</u>		<u>\$55,000</u>	<u>\$7,673</u>	<u>\$6,394</u>	<u>\$69,067</u>



November 27, 2007

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH *GOVERNMENT AUDITING STANDARDS***

To the Village Council of
Village of Otisville

We have audited the financial statements of the Village of Otisville as of and for the year ended June 30, 2007, and have issued our report thereon dated November 27, 2007. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Village of Otisville's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Village of Otisville's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Village of Otisville's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described below to be significant deficiencies in internal control over financial reporting.

Accounting Expertise

Effective for the year ended December 31, 2006, Statement on Auditing Standards #112 titled, *Communicating Internal Control Related Matters Identified in an Audit* (issued May 2006), requires us to communicate in writing when a client requires assistance to prepare the financial statements and the footnotes required in the annual audit. Based upon discussions with management and audit work performed in the current year, the Company has the capability to perform monthly internal accounting functions and provide timely reports as requested by the board. The Company does not have the personnel with qualifications and training necessary to generate financial statements, including the required eliminating entries and footnotes, in accordance with accounting principles generally accepted in the United States of America. We would expect this comment to continue from year to year. We do not recommend any changes to this situation at this time and communicate this as required by professional standards.



A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Village of Otisville's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the management and others within the entity and is not intended to be and should not be used by anyone other than these specified parties.

Lewis & Knopf PC
LEWIS & KNOPF, P.C.
CERTIFIED PUBLIC ACCOUNTANTS